

\$500,000,000

Tennessee Valley Authority

1996 Series A QIDS

7½% Quarterly Income Debt Securities 1996 Series A Due March 31, 2046

(Subordinated Deferrable Interest Debt Securities)

The 7½% Quarterly Income Debt Securities 1996 Series A Due March 31, 2046 (Subordinated Deferrable Interest Debt Securities) ("1996 Series A QIDS") will pay interest quarterly, on March 31, June 30, September 30 and December 31 of each year, commencing June 30, 1996. The 1996 Series A QIDS will be redeemable, in whole or in part, on not less than 30 and not more than 60 days' notice at any time on or after March 31, 2001 at the option of Tennessee Valley Authority ("TVA" or "Corporation") at a redemption price equal to 100 percent of the principal amount plus accrued interest to the redemption date. The 1996 Series A QIDS will be represented by Global Securities that will be deposited with The Depository Trust Company ("DTC") and will be available for purchase in denominations of \$25 and any integral multiple thereof. See "Description of the 1996 Series A QIDS" — "Book-Entry System". The obligations of TVA under the 1996 Series A QIDS are subordinate in right of payment to all Senior Debt (as defined herein) of TVA. See "Description of 1996 Series A QIDS" — "Subordination".

TVA is a wholly owned corporate agency and instrumentality of the United States of America. Principal and interest on the 1996 Series A QIDS will be payable solely from TVA's Net Power Proceeds (as defined herein).

The 1996 Series A QIDS have been approved for listing, subject to notice of issuance, on the New York Stock Exchange under the symbol "TVB".

See "Risk Factors" on page C-3 for certain information relevant to an investment in the 1996 Series A QIDS, including the period and circumstances during and under which payment of interest on the 1996 Series A QIDS may be deferred and the related federal income tax consequences.

THE 1996 SERIES A QIDS WILL NOT BE OBLIGATIONS OF, NOR WILL PAYMENT OF THE PRINCIPAL THEREOF OR THE INTEREST THEREON BE GUARANTEED BY, THE UNITED STATES OF AMERICA. THE 1996 SERIES A QIDS ARE NOT REQUIRED TO BE REGISTERED UNDER THE SECURITIES ACT OF 1933. ACCORDINGLY, NO REGISTRATION STATEMENT HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. TVA IS NOT SUBJECT TO THE PERIODIC REPORTING REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934.

	Initial Public Offering Price(1)	Underwriting Discount	Proceeds to TVA(1)(2)
Per 1996 Series A QIDS	100.00%	3.10%	96.90%
Total(3)	\$500,000,000	\$15,500,000	\$484,500,000

- (1) Plus accrued interest, if any, from April 26, 1996.
- (2) Before deducting expenses payable by TVA estimated at \$250,000.
- (3) TVA has granted to the Underwriters a two business day option to purchase, on the same terms set forth above, up to \$75,000,000 aggregate principal amount of additional 1996 Series A QIDS at the Initial Public Offering Price (less the Underwriting Discount) solely to cover over-allotments, if any. If the option is exercised in full, the total Initial Public Offering Price, Underwriting Discount and Proceeds to TVA will be \$575,000,000, \$17,825,000 and \$557,175,000, respectively.

The 1996 Series A QIDS are offered by the several Underwriters subject to prior sale, withdrawal, cancellation or modification of the offer without notice, to delivery to and acceptance by the Underwriters of the 1996 Series A QIDS and to certain further conditions. It is expected that delivery of the 1996 Series A QIDS, will be made through the facilities of DTC, New York, New York on or about April 26, 1996, against payment therefor in immediately available funds.

Goldman, Sachs & Co.

Merrill Lynch & Co.

Dean Witter Reynolds Inc.

A.G. Edwards & Sons, Inc.

PaineWebber Incorporated

Prudential Securities Incorporated

Smith Barney Inc.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 1996 SERIES A QIDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Offering Circular should be read in conjunction with TVA's current Information Statement, dated March 20, 1996 and any supplement thereto (the "current Information Statement") which is incorporated herein by this reference. Any statement contained in the current Information Statement shall be deemed modified or superseded for all purposes of the current Information Statement and this Offering Circular to the extent that a statement contained in this Offering Circular modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified, to constitute a part of the current Information Statement. Additional copies of this Offering Circular and of the current Information Statement may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (423) 632-3366. The then current information statement and other information concerning TVA may be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

RISK FACTORS

Prospective purchasers of 1996 Series A QIDS should carefully review the information contained elsewhere in this Offering Circular and should consider the following matters:

Subordination of 1996 Series A QIDS. The obligations of TVA under the 1996 Series A QIDS are subordinate in right of payment to all Senior Debt (as defined herein) of TVA. At March 31, 1996, outstanding Senior Debt of TVA aggregated approximately \$26.8 billion (not including \$1.6 billion of Power Bonds that are being redeemed under in-substance defeasance arrangements). There are no terms in the 1996 Series A QIDS that limit TVA's ability to incur additional indebtedness, including indebtedness that ranks senior to the 1996 Series A QIDS. See "Description of the 1996 Series A QIDS" — "Subordination".

Option to Extend Interest Payment Period. TVA has the right under the Resolutions (as defined herein) authorizing the issuance of the 1996 Series A QIDS to extend the interest payment period from time to time on the 1996 Series A QIDS to a period not exceeding 24 consecutive months (the "Extension Period"); provided, that, TVA shall not extend the interest payment period unless in the judgment of TVA's Board, as evidenced by a Board resolution, payments to the United States Treasury required by the Act in repayment of and as a return on the Appropriation Investment cannot feasibly be made because of inadequacy of funds occasioned by drought, poor business conditions, emergency replacements, or other factors beyond the control of TVA. If, prior to the expiration of any such Extension Period, TVA shall make (A) any payments to the United States Treasury required by the Act in repayment of and as a return on the Appropriation Investment or (B) any other similar or analogous payments to the United States Treasury or the United States which are in the nature of a return on or repayment of any investment by the United States in TVA, then the Extension Period shall immediately end. TVA believes that the extension of an interest payment period on the 1996 Series A QIDS is unlikely.

As a consequence of any such extension, quarterly interest payments on the 1996 Series A QIDS would be deferred (but would continue to accrue with interest thereon) during any such Extension Period. At the end of the Extension Period, TVA shall pay all interest then accrued and unpaid (together with interest thereon at the rate specified for the 1996 Series A QIDS to the extent permitted by applicable law). Prior to the termination of any such Extension Period, TVA may further extend the interest payment period, provided that such Extension Period, together with all such previous and further extensions thereof, may not exceed 24 consecutive months or extend beyond the maturity of the 1996 Series A QIDS. Upon the termination of any Extension Period and the payment of all amounts then due, TVA may select a new Extension Period, subject to the above requirements. See "Description of the 1996 Series A QIDS" — "Option to Extend Interest Payment Period".

Should an Extension Period occur, U.S. beneficial owners of 1996 Series A QIDS will continue to accrue income for United States federal income tax purposes even though interest is not being paid on a current basis. As a result, such a U.S. beneficial owner will include such interest in gross income for

**JB: G33672 PN: 004.00.00.00 SN: 1 <SQ>**

United States federal income tax purposes in advance of the receipt of cash. See "Tax Considerations Applicable to 1996 Series A QIDS".

Certain Trading Characteristics of the 1996 Series A QIDS. The 1996 Series A QIDS have been approved for listing on the New York Stock Exchange, subject to notice of issuance. Trading of the 1996 Series A QIDS on the New York Stock Exchange is expected to commence within a thirty-day period after the initial delivery of the 1996 Series A QIDS. The 1996 Series A QIDS are expected to trade "flat." This means that purchasers will not pay and sellers will not receive any accrued and unpaid interest on the 1996 Series A QIDS that is not included in the trading price. However, for United States federal income tax purposes, interest on the 1996 Series A QIDS is included in income as it accrues, rather than when it is paid. See "Tax Consideration Applicable to 1996 Series A QIDS".

SUMMARY OF OFFERING

The information below is qualified in its entirety by the detailed information appearing in TVA's current Information Statement (and any supplement thereto) and elsewhere in this Offering Circular. Capitalized terms used and not defined herein have the meanings defined in such Information Statement and elsewhere in this Offering Circular.

Issuer	TVA is a wholly owned corporate agency and instrumentality of the United States of America established by the Tennessee Valley Authority Act of 1933, as amended.
Securities Offered	\$500,000,000 aggregate principal amount (\$575,000,000 if the Underwriters' over-allotment option is exercised in full) of 7½% Quarterly Income Debt Securities 1996 Series A Due March 31, 2046 (Subordinated Deferrable Interest Debt Securities).
Interest	The 1996 Series A QIDS will bear interest from April 26, 1996, at the annual rate set forth on the cover page hereof, payable quarterly in arrears on each March 31, June 30, September 30, and December 31, commencing June 30, 1996. Under certain circumstances, TVA may elect to extend the interest period on the 1996 Series A QIDS. See "Risk Factors" and "Description of the 1996 Series A QIDS" — "Option to Extend Interest Payment Period".
Redemption	The 1996 Series A QIDS will be redeemable, in whole or in part, at any time on or after March 31, 2001 at the option of TVA at a redemption price equal to 100 percent of the principal amount plus accrued interest to the redemption date (the "Redemption Date").
Listing	New York Stock Exchange (Symbol: "TVB").
Ranking	1996 Series A QIDS are obligations of TVA subordinated to all Senior Debt (as defined herein) of TVA, including all Power Bonds, Discount Notes and other Evidences of Indebtedness of TVA.
Depository	The Depository Trust Company.
Form of 1996 Series A QIDS	The 1996 Series A QIDS will be issued and maintained and may be transferred by beneficial owners only through the facilities of DTC. See "Description of 1996 Series A QIDS" — "Book-Entry System".
Use of Proceeds	The net proceeds received by TVA from the sale of the 1996 Series A QIDS will be used to retire existing debt.
Source of Payment	The interest and principal on the 1996 Series A QIDS are payable solely from Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America. See "The Basic Resolution: Power Bonds, Discount Notes and Other Indebtedness" in the current Information Statement.



JB: G33672 PN: 006.00.00.00 SN: 1 <SQ>

Legality of Investment The following describes the legality of investment of TVA Evidences of Indebtedness. Potential investors are advised to consult with their own counsel with respect to the legality of investment of 1996 Series A QIDS. Generally, Evidences of Indebtedness:

- are acceptable as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America;
- are eligible as collateral for Treasury tax and loan accounts;
- are among those obligations which national banks may deal in, underwrite and purchase for their own accounts up to ten percent of unimpaired capital and surplus;
- are eligible as collateral for advances by Federal Reserve Banks to depository institutions;
- are legal investments for federal savings associations and federal savings banks to the extent specified in applicable regulations;
- are eligible as collateral for advances by Federal Home Loan Banks for which Evidences of Indebtedness are legal investments; and
- are legal investments for federal credit unions.

See "Legality of Investment".

No Acceleration Right. The 1996 Series A QIDS will not contain any provision permitting acceleration of the maturity thereof on the occurrence of any default.

Taxation Interest on the 1996 Series A QIDS is subject to federal income taxation. Under the Act, the 1996 Series A QIDS are exempt as to principal and interest from all taxation now or hereafter imposed by any state or local taxing authority except estate, inheritance and gift taxes. U.S. beneficial owners will be required to report interest on the 1996 Series A QIDS as it accrues, regardless of whether it has been paid. The 1996 Series A QIDS are subject to various other tax consequences. See "Tax Considerations Applicable to 1996 Series A QIDS".

Ratings As an instrumentality and corporate agency of the United States and consistent with the practice of other United States government agencies, TVA does not currently seek ratings from any nationally recognized statistical rating organization with respect to its securities (other than its Global Power Bonds) and does not intend to seek a rating for the 1996 Series A QIDS. There can be no assurance as to whether such a rating organization might seek to rate the 1996 Series A QIDS on its own initiative.

CUSIP Number for 1996 Series A
QIDS 880591 201



JB: G33672 PN: 007.00.00.00 SN: 1 <SQ>

TENNESSEE VALLEY AUTHORITY

The Tennessee Valley Authority is the largest public electric power system in the United States of America, producing more than 139 billion kilowatthours of electricity in fiscal year 1995. The TVA system is the supplier of electric power to a region containing 7.3 million people located in parts of seven states: Tennessee, Kentucky, Mississippi, Alabama, Georgia, North Carolina and Virginia.

TVA is a wholly owned corporate agency and instrumentality of the United States established pursuant to the Tennessee Valley Authority Act of 1933, as amended (the "Act"), primarily to develop and manage the resources of the Tennessee Valley region. The programs at TVA consist of power and nonpower programs. TVA's electric system operations are required to be self-supporting from power system revenues, which were about \$5.4 billion in fiscal year 1995. No tax dollars go into the operation of TVA's power program. The Act authorizes TVA to issue Evidences of Indebtedness (as such term is defined under "Description of 1996 Series A QIDS") that may only be used to finance its power program. TVA's nonpower activities include responsibilities associated with operation of the Tennessee River system, land management, economic development and the environment. Congress provided \$109 million for TVA's nonpower programs in fiscal year 1996.

For 63 years, TVA has been associated with bringing prosperity to a significant region of the United States. Its dams have averted an estimated \$4 billion in flood damage, its power program brought electricity to a large undeveloped area of the country and its economic development program has contributed to a vast increase in the number of jobs in the Valley.

TVA's mission has evolved over the years as the needs of its customers have changed. The stated Vision of TVA is "to be the recognized world leader in providing energy and related services, independently and in alliances with others, for society's global needs". Operational excellence is the cornerstone of a successful future for TVA as it enters an era of deregulation. TVA reached an all-time peak demand of 25,995 megawatts on February 5, 1996. It successfully restarted two nuclear generating units last year and achieved a nuclear generating capacity factor of 80 percent in 1995, exceeding the nuclear industry average of 77.6 percent during the same period.

In looking to the future, TVA recently completed an integrated resource plan built on extensive public input, resulting in a 25-year plan to meet future energy needs. It is completing a Strategic Planning Process to define how it will meet the challenges of a deregulated electric utility industry, including considering alliances with the private sector, both in the United States and internationally. TVA is committed to competing in a deregulated environment and will use its flexibility to respond to market changes while fulfilling its role of being an energy leader in price, service, and environmental stewardship.

USE OF PROCEEDS

The net proceeds received by TVA from the sale of the 1996 Series A QIDS will be used to retire existing debt.

RECENT DEVELOPMENTS

Financial Results

The condensed financial statements for TVA's power program for the fiscal years ended September 30, 1995 and 1994 have been derived from TVA's audited financial statements. The condensed financial statements for TVA's power program for the six months ended March 31, 1996 and 1995 are unaudited but in the opinion of management of TVA include all adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of results for such periods. The following information should be read in conjunction with the audited financial statements and notes thereto presented in the current Information Statement. Results for the six months ended March 31, 1996 are not necessarily indicative of results for fiscal year 1996.



**TENNESSEE VALLEY AUTHORITY
POWER PROGRAM
CONDENSED BALANCE SHEETS
At March 31, 1996 and September 30, 1995**

	March 31, 1996	September 30, 1995
	(Millions)	
ASSETS		
CURRENT ASSETS		
Cash.....	\$ 9	\$ 52
Accounts receivable	633	681
Inventories, at average cost	372	355
Total current assets.....	1,014	1,088
PROPERTY, PLANT, AND EQUIPMENT		
Completed plant	20,219	18,412
Less accumulated depreciation.....	(6,339)	(6,061)
Net completed plant	13,880	12,351
Construction in progress	8,299	9,556
Deferred nuclear generating units.....	6,236	6,227
Nuclear fuel and capital lease assets.....	1,154	1,167
Total property, plant, and equipment.....	29,569	29,301
INVESTMENT FUNDS	272	260
DEFERRED CHARGES AND OTHER ASSETS	2,698	2,644
Total assets	<u>\$33,553</u>	<u>\$33,293</u>
LIABILITIES AND PROPRIETARY CAPITAL		
CURRENT LIABILITIES		
Accounts payable	\$ 490	\$ 694
Accrued liabilities	139	130
Accrued interest.....	491	455
Short-term debt	3,352	2,831
Current maturities of long-term debt	1,516	1,306
Total current liabilities	5,988	5,416
OTHER LIABILITIES	1,386	1,264
LONG-TERM DEBT		
Senior Debt: Public Bonds	18,603	19,153
Federal Financing Bank	3,200	3,200
Subordinated Debt: Public Bonds.....	600	600
Unamortized Discount.....	(372)	(370)
Total long-term debt	22,031	22,583
PROPRIETARY CAPITAL		
Appropriation investment	618	628
Retained earnings reinvested in power program	3,530	3,402
Total proprietary capital	4,148	4,030
Total liabilities and proprietary capital	<u>\$33,553</u>	<u>\$33,293</u>

**TENNESSEE VALLEY AUTHORITY
POWER PROGRAM**

**CONDENSED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS
For the Six Months Ended March 31, 1996 and 1995
and for the Years Ended September 30, 1995 and 1994**

	Six Months Ended March 31,		Fiscal Year Ended September 30,	
	1996	1995(1)	1995	1994
	(Millions)			
OPERATING REVENUES				
Sales of electric energy				
Municipalities and cooperatives	\$2,467	\$2,212	\$4,654	\$4,582
Industries directly served	224	217	460	452
Federal Agencies	80	85	179	296
Other	43	44	82	71
Total operating revenues	<u>2,814</u>	<u>2,558</u>	<u>5,375</u>	<u>5,401</u>
OPERATING EXPENSES				
Fuel and purchased power, net	630	657	1,443	1,493
Operating and maintenance	548	490	1,050	1,081
Depreciation and amortization	384	339	703	639
Tax-equivalent payments	127	125	252	248
Total operating expenses	<u>1,689</u>	<u>1,611</u>	<u>3,448</u>	<u>3,461</u>
OPERATING INCOME	<u>1,125</u>	<u>947</u>	<u>1,927</u>	<u>1,940</u>
OTHER INCOME AND EXPENSE, NET (2)	(2)	(96)	(91)	(59)
Income before interest charges	<u>1,123</u>	<u>851</u>	<u>1,836</u>	<u>1,881</u>
INTEREST CHARGES				
Interest expense	1,040	997	2,024	1,853
Allowance for funds used during construction (3)	(67)	(111)	(198)	(123)
Net interest charges	<u>973</u>	<u>886</u>	<u>1,826</u>	<u>1,730</u>
NET INCOME (LOSS)	150	(35)	10	151
Return on appropriation investment	22	21	42	42
Increase (decrease) in retained earnings	128	(56)	(32)	109
Retained earnings reinvested at beginning of period	<u>3,402</u>	<u>3,434</u>	<u>3,434</u>	<u>3,325</u>
Retained earnings reinvested at end of period	<u>\$3,530</u>	<u>\$3,378</u>	<u>\$3,402</u>	<u>\$3,434</u>

- (1) The six months ended March 31, 1995 is reclassified to conform to fiscal 1995 and 1996 presentations.
- (2) In August 1995, TVA determined that the cost of the voluntary early-out package offered to all TVA employees in the first quarter of 1995 was \$136 million, rather than the \$88 million charge previously reported. Accordingly, these Condensed Statements of Operations and Retained Earnings and the Condensed Statements of Cash Flows as of and for the six months ended March 31, 1995, have been restated to reflect the revised cost. The effect of the correction was to increase the charge included in Other Income and Expense, Net and decrease Net Income by \$48 million.
- (3) Effective October 1, 1994 TVA changed its method of determining the interest rate used to calculate the allowance for funds used during construction. The change was made to more accurately reflect the nature of the indebtedness issued to fund construction. The effect of the change for fiscal 1995 was to increase the amount of interest capitalized by approximately \$56 million.

**TENNESSEE VALLEY AUTHORITY
POWER PROGRAM**

**CONDENSED STATEMENTS OF CASH FLOWS
For the Six Months Ended March 31, 1996 and 1995
and for the Years Ended September 30, 1995 and 1994**

	Six Months Ended March 31,		Fiscal Year Ended September 30,	
	1996	1995(1)	1995	1994
	(Millions)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss) (2)	\$ 150	\$ (35)	\$ 10	\$ 151
Items not requiring cash	455	305	701	909
Other changes, net (2)	(164)	(50)	91	84
Net cash provided by operating activities	<u>441</u>	<u>220</u>	<u>802</u>	<u>1,144</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Construction expenditures	(596)	(908)	(1,868)	(2,015)
Allowance for funds used during construction	67	111	198	123
Other, net	(78)	(67)	(201)	(36)
Net cash used in investing activities	<u>(607)</u>	<u>(864)</u>	<u>(1,871)</u>	<u>(1,928)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings, net	155	716	1,181	735
Other	(32)	(31)	(62)	(62)
Net cash provided by financing activities	<u>123</u>	<u>685</u>	<u>1,119</u>	<u>673</u>
Net change in cash and cash equivalents	<u>\$ (43)</u>	<u>\$ 41</u>	<u>\$ 50</u>	<u>\$ (111)</u>

(1) The six months ended March 31, 1995 is reclassified to conform to fiscal 1995 and 1996 presentations.

(2) See Note 2 to Condensed Statements of Operations and Retained Earnings.

Results of Operations for the Six Months Ended March 31, 1996

Net power income of \$150 million for the six months ended March 31, 1996 was a \$185 million increase over the same period ended March 31, 1995. Electric sales for the six months ended March 31, 1996 increased 8 percent over the same period ended March 31, 1995, from 64.1 billion kilowatthours to 69.2 billion kilowatthours. Operating revenues for the six months ended March 31, 1996 increased \$256 million from \$2,558 million to \$2,814 million when compared to the same period ended March 31, 1995. The increase in electric sales and in operating revenues is primarily due to system load growth and to colder weather conditions as compared to last year.

Operating expenses for the six months ended March 31, 1996 increased \$78 million from \$1,611 million in the same period ended March 31, 1995. Other income and deductions include items not directly associated with the production of energy. Charges to nonoperating income and expenses for the six months ended March 31, 1995 were primarily due to a one-time nonoperating charge of \$136 million for a voluntary early-out package offered to all TVA employees during the six months ended March 31, 1995. Net interest expense increased \$87 million from \$886 million in the six months ended March 31, 1995 to \$973 million for the same period ended March 31, 1996. Interest on indebtedness increased due to added borrowings for TVA's power program and a reduction in the allowance for funds used during construction.

Liquidity and Capital Resources

In November 1995, TVA issued in the public market \$1,000 million in Global Power Bonds (due 2000) and \$600 million in Global Power Bonds (due 2025) to retire existing debt.

In April 1996, TVA issued in the public market \$600 million in Power Bonds (due 2036) to retire existing debt.

DESCRIPTION OF 1996 SERIES A QIDS

General

The 1996 Series A QIDS are to be issued pursuant to authority vested in TVA by the Act and pursuant to the Tennessee Valley Authority Subordinated Debt Resolution adopted on March 29, 1995 (the "Subordinated Debt Resolution"), and the resolution authorizing the issuance of the 1996 Series A QIDS adopted on October 24, 1995 (the "Supplemental Subordinated Debt Resolution" and together with the Subordinated Debt Resolution, the "Resolutions"). The Secretary of the Treasury has approved the time of issuance of, and the maximum rate of interest to be borne by, the 1996 Series A QIDS in compliance with Section 15d(c) of the Act. The 1996 Series A QIDS will be Subordinated Debt Securities (as defined below) of TVA issuable pursuant to the Resolutions and payable solely from TVA's Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America. The 1996 Series A QIDS are subordinated to all Senior Debt (as defined below under "Subordination") of TVA.

The Act authorizes TVA to issue and sell bonds, notes and other evidences of indebtedness (hereinafter collectively referred to as "Evidences of Indebtedness") to assist in financing its power program and to refund such Evidences of Indebtedness. Evidences of Indebtedness issued pursuant to the Subordinated Debt Resolution are hereinafter referred to as the "Subordinated Debt Securities".

The aggregate amount of Evidences of Indebtedness (including Subordinated Debt Securities) at any one time outstanding is limited by the Act to \$30 billion. As of March 31, 1996, TVA had approximately \$27.4 billion of Evidences of Indebtedness outstanding. There are also \$1.6 billion of Power Bonds that are being redeemed under in-substance defeasance arrangements and are not considered by TVA to be debt that is subject to the \$30 billion limit. For information with respect to TVA's Power Bonds and its Basic Tennessee Valley Authority Power Bond Resolution adopted on October 6, 1960, as amended on September 28, 1976, October 17, 1989 and March 25, 1992 (the "Basic Resolution"), see "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Issuance of Additional Bonds and Other Evidences of Indebtedness" in the current Information Statement.

The 1996 Series A QIDS will be Subordinated Debt Securities and will be payable as to both principal and interest solely from TVA's Net Power Proceeds, which are defined as the remainder of TVA's Gross Power Revenues (as defined in the Subordinated Debt Resolution) after deducting the costs of operating, maintaining, and administering its power properties (including multiple-purpose properties in the proportion that multiple-purpose costs are allocated to power) and payments to states and counties in lieu of taxes, but before deducting depreciation accruals or other charges representing the amortization of capital expenditures, plus the net proceeds of the sale or other disposition of any Power Facility (as defined in the Subordinated Debt Resolution) or interest therein. The Act also requires TVA to make certain payments to the United States Treasury each year from Net Power Proceeds in excess of those required for debt service as a return on and reduction of the Appropriation Investment (as defined in the Subordinated Debt Resolution). See "Certain Provisions of the Tennessee Valley Authority Act" — "Payments to the Treasury" in the current Information Statement.

As to the application of Net Power Proceeds, Bonds (as defined in the Basic Resolution) rank senior to other Evidences of Indebtedness (including Subordinated Debt Securities) as to principal and on a parity with or senior to other Evidences of Indebtedness as to interest. The payment of the principal of and the interest on all Senior Debt, including such Power Bonds, ranks senior to the payment of principal



JB: G33672 PN: 012.00.00.00 SN: 1 <SQ>

and interest on the 1996 Series A QIDS. See "Subordination". For a further discussion of the application of Net Power Proceeds, see "Certain Provisions of the Tennessee Valley Authority Act" and "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Application of Net Power Proceeds" in the current Information Statement. There is no limit on other indebtedness or securities which may be issued by TVA and no financial or similar restrictions on TVA, except as provided under the Act and the Basic Resolution. See "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" in the current Information Statement.

So long as the 1996 Series A QIDS are in book-entry form, DTC, its nominee, a successor securities depository or its nominee, as the case may be, will be the sole Registered Holder (as defined below) of the 1996 Series A QIDS for all purposes under the Resolutions. Accordingly, each person owning a beneficial interest in the 1996 Series A QIDS (a "beneficial owner") must rely on the procedures of DTC and, if such person is not a Participant (as defined below), on the procedures of the Participant through which such person owns its interest in order to exercise any rights of a Registered Holder under the Resolutions. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in certificated form. Such limits and such laws may impair the ability to transfer beneficial interests in the 1996 Series A QIDS. See "Book-Entry System" below.

The summaries herein of certain provisions of the Act and the Resolutions do not purport to be complete and are qualified in their entirety by reference to all the provisions of the Act and the Resolutions, copies of which may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (423) 632-3366.

Payment of Principal and Interest

The 1996 Series A QIDS will consist of \$500,000,000 aggregate principal amount (\$575,000,000 if the Underwriters' over-allotment option is exercised in full) of 7½% Quarterly Income Debt Securities Due March 31, 2046 (Subordinated Deferrable Interest Debt Securities). The 1996 Series A QIDS (and beneficial interests therein) will be issued in minimum denominations of \$25 and integral multiples thereof in book-entry form only through DTC. Unless deferred, interest will be payable quarterly in arrears on March 31, June 30, September 30, and December 31 (each an "Interest Payment Date") commencing June 30, 1996. Such interest payments will include interest accrued from and including April 26, 1996 or the preceding Interest Payment Date, as the case may be, to but excluding the relevant Interest Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months. The principal amount of all 1996 Series A QIDS, together with the interest accrued and unpaid thereon, is due in full on March 31, 2046 (the "Maturity Date"). Payments of principal and interest on the 1996 Series A QIDS will be made on the applicable payment dates to the person in whose name the 1996 Series A QIDS are registered on TVA's books and records (the "Registered Holder") as of the close of business on the Business Day preceding such payment dates.

In any case in which an Interest Payment Date, Redemption Date, or the Maturity Date is not a Business Day, payment of principal or interest, as the case may be, shall be made on the next succeeding Business Day with the same force and effect as if made on such Interest Payment Date, Redemption Date, or the Maturity Date. The term "Business Day" shall mean any day other than a Saturday or Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to be closed.

Subordination

The Subordinated Debt Resolution provides that the 1996 Series A QIDS will be subordinate and subject in right of payment to the prior payment in full of all Senior Debt of TVA, whether outstanding at the date of issuance of the 1996 Series A QIDS or thereafter incurred.

No payment of principal of (including redemption payments), or interest on, the 1996 Series A QIDS may be made if any Senior Debt is not paid when due, any applicable grace period with respect to such

default has ended and such default has not been cured or waived. The rights of the holders of the 1996 Series A QIDS will be subrogated to the rights of the holders of Senior Debt to receive payments or distributions applicable to Senior Debt until all amounts owing on the 1996 Series A QIDS are paid in full.

The term "Senior Debt" shall mean the principal of, premium on, if any, interest on and any other payment due pursuant to any of the following, whether outstanding at the date of issuance of the 1996 Series A QIDS or thereafter incurred or created; all indebtedness of TVA issued pursuant to Section 15d of the TVA Act represented by bonds, notes, or other evidences of indebtedness; and all renewals, extensions, or refundings of indebtedness of the kinds described above; unless, in the case of any particular indebtedness, renewal, extension or refunding, the instrument creating or evidencing the same expressly provides that such indebtedness, renewal, extension or refunding is not superior in right of payment to or is *pari passu* with the 1996 Series A QIDS.

The Resolutions do not limit the aggregate amount of Senior Debt that TVA may issue. As of March 31, 1996, outstanding Senior Debt of TVA aggregated approximately \$26.8 billion (not including \$1.6 billion of Power Bonds that are being redeemed under in-substance defeasance arrangements).

Redemption

The 1996 Series A QIDS are subject to redemption at the option of TVA upon not less than 30 nor more than 60 days' notice to each Registered Holder at any time on or after March 31, 2001, as a whole or in part, at a redemption price equal to 100 percent of the principal amount plus accrued interest to the Redemption Date. For practices of DTC with respect to notice of redemption and selection of beneficial interests to be redeemed in the event of a partial redemption, see "Book-Entry System".

Option to Extend Interest Payment Period

TVA shall have the right at any time during the term of the 1996 Series A QIDS to extend the interest payment period from time to time to a period not exceeding 24 consecutive months (the "Extension Period") by electing not to pay interest on the 1996 Series A QIDS on any Interest Payment Date. At the end of the Extension Period TVA shall pay all interest then accrued and unpaid (together with interest thereon at the rate specified for the 1996 Series A QIDS to the extent permitted by applicable law); provided that TVA shall not extend the interest payment period unless in the judgment of TVA's Board, as evidenced by a Board Resolution, payments to the United States Treasury required by the Act in repayment of and as a return on the Appropriation Investment (as defined in the Subordinated Debt Resolution) cannot feasibly be made because of inadequacy of funds occasioned by drought, poor business conditions, emergency replacements, or other factors beyond the control of TVA. If, prior to the expiration of any such Extension Period, TVA shall make (A) any payments to the United States Treasury required by the Act in repayment of and as a return on the Appropriation Investment or (B) any other similar or analogous payments to the United States Treasury or the United States which are in the nature of a return on or repayment of any investment by the United States in TVA, then the Extension Period shall immediately end. TVA believes that the extension of an interest payment period on the 1996 Series A QIDS is unlikely.

Prior to the termination of any such Extension Period, TVA may further extend the interest payment period, provided that such Extension Period, together with all such previous and further extensions thereof, may not exceed 24 consecutive months, or extend beyond the maturity of the 1996 Series A QIDS. Upon the termination of any Extension Period and the payment of all amounts then due, TVA may select a new Extension Period, subject to the above requirements. No interest during an Extension Period shall be due and payable, except at the end thereof.

TVA shall give notice to the Registered Holders of 1996 Series A QIDS of its selection of such Extension Period ten Business Days prior to the earlier of (i) the next Interest Payment Date or (ii) the date TVA is required to give notice to the New York Stock Exchange or other applicable self-regulatory organization of such Interest Payment Date.



JB: G33672 PN: 014.00.00.00 SN: 1 <SQ>

At September 30, 1995, the United States had a net Appropriation Investment in TVA of approximately \$628 million. The TVA Act requires the payment to the U.S. Treasury from Net Power Proceeds in excess of those required for debt service of (i) a return on such net Appropriation Investment plus (ii) repayment of such investment with annual payments of \$20 million until a total of \$1 billion has been repaid. The amount of return paid in fiscal year 1995 under clause (i) was \$42 million and is based on the Appropriation Investment as of the beginning of the year and the computed average interest rate payable by the United States Treasury on its total marketable public obligations as of the same date. The payments required by the TVA Act may be deferred under certain circumstances for not more than two years if, in the judgment of TVA's Board, such payments to the United States Treasury cannot feasibly be made for reasons described above. Repayments toward the \$1 billion totaled \$630 million at September 30, 1995. Following repayment of such \$1 billion, TVA will continue to be obligated to pay a return on the remaining Appropriation Investment. These payments are analogous to dividends paid to equity owners of a corporation.

Modifications of Resolutions and Outstanding Subordinated Debt Securities

The Subordinated Debt Resolution provides for amendments to it, to any Supplemental Subordinated Debt Resolution, and to any outstanding Subordinated Debt Securities. In summary, amendments of the respective rights and obligations of TVA and the Registered Holders of Subordinated Debt Securities may be made with the written consent of the Registered Holders of at least 66²/₃ percent in principal amount of the outstanding Subordinated Debt Securities to which the amendment applies; but changes in the maturity, principal amount, redemption premium, or rate of interest or maturity of any interest installment, with respect to any Subordinated Debt Securities, or in the above percentage for any such consent, cannot be made without the consent of the Registered Holders of such Subordinated Debt Securities.

In addition, TVA may amend the Subordinated Debt Resolution or any Supplemental Subordinated Debt Resolution without the consent of the Registered Holders of Subordinated Debt Securities in order (1) to close the Subordinated Debt Resolution against the issuance of additional Subordinated Debt Securities or to restrict such issuance by imposing additional conditions or restrictions; (2) to add other covenants and agreements to be observed by TVA or to eliminate any right, power or privilege conferred upon TVA by the Subordinated Debt Resolution; (3) to modify any provisions to release TVA from any of its obligations, covenants, agreements, limitations, conditions or restrictions, provided that such modification or release shall not become effective with respect to any Subordinated Debt Securities issued prior to the adoption of such amendment; (4) to correct any defect, ambiguity or inconsistency in, or to make provisions in regard to matters or questions arising under, the Subordinated Debt Resolution or any Supplemental Subordinated Debt Resolution, so long as such amendments are not contrary to, or inconsistent with, the Subordinated Debt Resolution or such Supplemental Subordinated Debt Resolution; or (5) to make any other modification or amendment which the Board by resolution determines will not materially and adversely affect the interest of Registered Holders of outstanding Subordinated Debt Securities.

Events of Default

Any of the following shall be deemed an Event of Default under the Subordinated Debt Resolution: (i) default in the payment of the principal or redemption price of any Subordinated Debt Security when due and payable at maturity, by call for redemption, or otherwise; (ii) default in the payment of any installment of interest on any Subordinated Debt Security when due and payable for more than 30 days; or (iii) failure of TVA to duly perform any other covenant, condition or agreement contained in the Subordinated Debt Security or in the Subordinated Debt Resolution or any Supplemental Subordinated Debt Resolution for 90 days after written notice specifying such failure has been given to TVA by the Registered Holders of at least 5 percent in aggregate principal amount of the then outstanding Subordinated Debt Securities.

Upon any such Event of Default, the Registered Holders of the Subordinated Debt Securities may proceed to protect and enforce their respective rights, subject to the restrictions described below. The



JB: G33672 PN: 015.00.00.00 SN: 1 <SQ>

Registered Holders of at least 5 percent in aggregate principal amount of Subordinated Debt Securities then outstanding shall, subject to certain restrictions, have the right and power to institute a proceeding (i) to enforce TVA's covenants and agreements, (ii) to enjoin any acts in violation of the rights of Registered Holders of Subordinated Debt Securities, and (iii) to protect and enforce the rights of Registered Holders of Subordinated Debt Securities. Subordinated Debt Securities do not provide for acceleration upon an Event of Default.

Such Registered Holders have no right to bring any such action or proceeding against TVA unless they have given TVA written notice of any Event of Default, and TVA has had a reasonable opportunity to take appropriate corrective action with respect thereto and has failed or refused to do so.

Registered Holders of a majority in aggregate principal amount of the outstanding Subordinated Debt Securities have the right to direct the time, method and place of conducting any proceeding for any remedy available and may waive any default and its consequences, except a default in the payment of the principal of, or interest on any Subordinated Debt Securities.

Satisfaction, Discharge and Defeasance

TVA's obligations on the 1996 Series A QIDS and under the Subordinated Debt Resolution will be satisfied and discharged when payment of the principal of, and any applicable redemption premiums on, all outstanding 1996 Series A QIDS of such series, plus interest thereon, to the respective dates of payment (a) shall have been made in accordance with the terms thereof; or (b) shall have been provided for by depositing in irrevocable trust with a paying agent (other than TVA) (i) money in an amount, or (ii) U.S. Government Obligations (as defined in the Subordinated Debt Resolution) which through the scheduled payment of principal and interest in accordance with their terms will provide, money in an amount, or (iii) a combination thereof, in each case sufficient for such purpose. In the case of (b), above, all amounts which remain unclaimed at the end of six years after the respective redemption dates or Maturity Date will be repaid to TVA and thereafter the holder of any of such Subordinated Debt Securities remaining unpaid shall look only to TVA for payment thereof.

In the event TVA elects to have subsection (b) above apply to the 1996 Series A QIDS (a "defeasance") TVA shall have received an opinion of counsel stating that (i) TVA has received from, or there has been published by, the Internal Revenue Service a ruling or (ii) since the date of the Subordinated Debt Resolution, there has been a change in the applicable federal income tax law, in either case to the effect that the holders of the 1996 Series A QIDS will not recognize gain or loss for federal income tax purposes as a result of the deposit, defeasance and discharge to be effected with respect to the 1996 Series A QIDS and will be subject to federal income tax on the same amount in the same manner and at the same times as would be the case if such deposit, defeasance and discharge were not to occur.

Book-Entry System

The 1996 Series A QIDS will be represented by Global Securities (as defined in the Subordinated Debt Resolution) which will be deposited with, or on behalf of, DTC, and will be registered in the name of Cede & Co. (DTC's partnership nominee). Beneficial interests in the 1996 Series A QIDS will be available for purchase in denominations of \$25 and integral multiples thereof.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates.

Direct Participants include securities brokers and dealers (including the Underwriters), banks, trust companies, clearing corporations, and certain other organizations ("Direct Participants"). DTC is owned

by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of 1996 Series A QIDS under the DTC system must be made by or through Direct Participants, which will receive a credit for 1996 Series A QIDS on DTC's records. The ownership interest of each beneficial owner is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the 1996 Series A QIDS are to be accomplished by entries made on the books of Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in 1996 Series A QIDS, except in the event that use of the book-entry system for the 1996 Series A QIDS is discontinued.

To facilitate subsequent transfers, all 1996 Series A QIDS deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 1996 Series A QIDS with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the 1996 Series A QIDS; DTC's records reflect only the identity of the Direct Participants to whose accounts such 1996 Series A QIDS are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. as the Registered Holder of the 1996 Series A QIDS. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Accounting for such redemptions by Direct Participants to Indirect Participants and by Direct and Indirect Participants to beneficial owners will be governed by arrangements among them.

Neither DTC nor Cede & Co. will consent or vote with respect to the 1996 Series A QIDS. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 1996 Series A QIDS will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the date on which interest is payable in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on such payment date. Payments by Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or TVA, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of TVA. Disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing services as securities depository with respect to the 1996 Series A QIDS at any time by giving reasonable notice to TVA. TVA may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depository). Under such circumstances, TVA may

select a substitute depository to act as securities depository for the 1996 Series A QIDS or, in the event that a successor securities depository is not obtained, deliver certificates representing the 1996 Series A QIDS as provided in the Supplemental Subordinated Debt Resolution. See "Discontinuance of Book-Entry System" below.

None of TVA, the Underwriters (except as a Direct or Indirect Participant), any paying agent or any other agent of TVA will have any responsibility or liability for any aspect of the records relating to or payments made or to be made on account of beneficial ownership interests in the Global Securities or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Discontinuance of Book-Entry System

If use of the book-entry system is discontinued and no substitute depository or successor depository is selected by TVA the provisions of this section shall apply.

1996 Series A QIDS issued in exchange for the Global Securities will be registered in the name or names of such person or persons as DTC (or a successor depository) shall instruct TVA. It is expected that such instructions will be based upon directions received by DTC from its Participants with respect to ownership of beneficial interests in such Global Security. Thereafter, registration of transfer or exchange of certificates representing the 1996 Series A QIDS may be made in the office of TVA or a securities registrar appointed by TVA (the "Registrar") in the Borough of Manhattan, the City of New York. No service charge will be made by TVA or any Registrar appointed by TVA for any such registration of transfer or exchange of certificates representing the 1996 Series A QIDS, but TVA may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith (other than exchanges pursuant to the Resolutions not involving any transfer).

Payment of principal of and interest on the 1996 Series A QIDS will be made at the office or agency of TVA maintained for such purpose in the Borough of Manhattan, the City of New York; provided however that at the option of TVA interest may be paid by check mailed to the address of the Registered Holder entitled thereto as such address shall appear in the register maintained by TVA or a Registrar appointed by TVA.

LEGALITY OF INVESTMENT

The following generally describes the legality of investment of TVA Evidences of Indebtedness. Potential investors are advised to consult with their own counsel with respect to the legality of investment of the 1996 Series A QIDS.

Evidences of Indebtedness are lawful investments and may be accepted as security for all fiduciary, trust and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America. 16 U.S.C. § 831n-4(d).

Evidences of Indebtedness are acceptable as collateral for Treasury tax and loan accounts pursuant to 31 C.F.R. § 203.14(d)(1).

National banks may deal in, underwrite and purchase Evidences of Indebtedness for their own accounts in an amount not to exceed ten percent of unimpaired capital and surplus. 12 U.S.C. § 24, seventh paragraph.

Federal Reserve Banks may accept Evidences of Indebtedness as eligible collateral for advances to depository institutions. 12 U.S.C. § 347 and 12 C.F.R. § 201.108(b)(13).

Federal savings associations and federal savings banks may, to the extent specified in applicable regulations, invest in Evidences of Indebtedness without regard to limitations generally applicable to investments. 12 U.S.C. § 1464(c)(1)(F).

Evidences of Indebtedness are eligible as collateral for advances by Federal Home Loan Banks to federal savings and loan associations, federal savings banks and other members for which Evidences of Indebtedness are legal investments. 12 U.S.C. § 1430(a) and 12 C.F.R. § 935.9(a)(2).

Federal credit unions may purchase Evidences of Indebtedness. 12 U.S.C. § 1757(7)(E).

Evidences of Indebtedness are "obligations of a corporation which is an instrumentality of the United States" within the meaning of Section 7701(a)(19)(C)(ii) of the Internal Revenue Code for purposes of the 60 percent of assets limitation applicable to domestic building and loan associations.

TAX CONSIDERATIONS APPLICABLE TO 1996 SERIES A QIDS

The following discussion describes certain United States federal (and state and local, where specifically noted) income and estate tax consequences of the ownership of the 1996 Series A QIDS, without consideration of the particular facts and circumstances of each beneficial owner's situation. In addition, the rules described below and their application to the 1996 Series A QIDS are subject to change. Thus, each prospective beneficial owner and any other person or entity may neither construe as legal advice nor rely on the following discussion but rather each is urged to consult its own tax advisor with respect to United States federal and state tax consequences of holding 1996 Series A QIDS, as well as any consequences arising under the laws of any other taxing jurisdiction.

For purposes of this discussion, "U.S. Person" means a citizen or resident of the United States, or a corporation or partnership organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust the income of which is includible in gross income for United States tax purposes regardless of its source. The term "U.S. beneficial owner" includes any U.S. Person which is a beneficial owner of a 1996 Series A QIDS and any person which is a beneficial owner of a 1996 Series A QIDS to the extent that the income attributable to such 1996 Series A QIDS is effectively connected with the person's conduct of a United States trade or business.

U.S. beneficial owners

A U.S. beneficial owner is subject to federal income taxation on the income from the 1996 Series A QIDS, and there is no special exemption for 1996 Series A QIDS from United States federal estate and gift tax. The Act, however, provides that the 1996 Series A QIDS are exempt both as to principal and interest from all taxation now or hereafter imposed by any state or local taxing authority except estate, inheritance and gift taxes. This exemption might not extend to franchise or other non-property taxes in lieu thereof imposed on corporations or to gain or loss realized upon the sale or exchange of 1996 Series A QIDS.

Because of the possibility that the payment of interest on the 1996 Series A QIDS may be deferred during an Extension Period, none of the interest will qualify as "qualified stated interest" under the Treasury regulations pertaining to taxation of interest on debt instruments and all interest accruing on the 1996 Series A QIDS will be treated as "original issue discount". Consequently, interest on the 1996 Series A QIDS will be included in income of U.S. beneficial owners as it accrues, rather than when the interest is paid. Thus, upon the occurrence of an Extension Period, a U.S. beneficial owner will be required to continue accruing interest on its 1996 Series A QIDS and including the interest in income, even though actual payment of this interest will be deferred. A U.S. beneficial owner's tax basis of a 1996 Series A QIDS will be increased by the amount of any accrued, but unpaid, interest thereon; if and when the accrued interest is paid, the U.S. beneficial owner's basis will be reduced by the amount of the interest payment.

If a U.S. beneficial owner purchases a 1996 Series A QIDS for less than its revised issue price (that is, the issue price of the 1996 Series A QIDS increased, generally, by all accrued but unpaid interest at the time of purchase), in general, that difference will be market discount (unless the discount is less than $\frac{1}{4}$ of 1% of the stated redemption price at maturity of the 1996 Series A QIDS multiplied by the number of complete years remaining to maturity). In general, under the market discount rules, unless the U.S.



JB: G33672 PN: 019.00.00.00 SN: 1 <SQ>

beneficial owner elects for federal income tax purposes to accrue market discount in income currently, any gain on a disposition of market discount 1996 Series A QIDS will be ordinary income to the extent of the accrued market discount, and deductions for a portion of the interest on any indebtedness incurred or continued to purchase or carry the 1996 Series A QIDS may be deferred. A U.S. beneficial owner who purchases a 1996 Series A QIDS for greater than its revised issue price will be generally entitled and required to reduce the amount of interest otherwise accruable on the 1996 Series A QIDS by the amount of such excess, determined on a straight line basis or, if elected by the holder, on a constant interest basis.

A U.S. beneficial owner will generally recognize gain or loss on the sale or retirement of 1996 Series A QIDS equal to the difference between the amount realized from the sale or retirement and the tax basis of the 1996 Series A QIDS. Assuming the 1996 Series A QIDS are held as capital assets (and subject to the market discount rules discussed above), such gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the 1996 Series A QIDS have been held for more than one year.

Non-U.S. beneficial owners

Generally, a non-U.S. beneficial owner will not be subject to United States federal income taxation on interest on the 1996 Series A QIDS. To qualify for the exemption from taxation, the last U.S. Person in the chain of payment prior to payment to a non-U.S. beneficial owner (the "Withholding Agent") must have received in the year in which such a payment occurs, or in either of the two preceding years, a statement that (i) is signed by the beneficial owner under penalties of perjury, (ii) certifies that such owner is not a U.S. beneficial owner, and (iii) provides the name and address of the beneficial owner. The statement may be made on an Internal Revenue Service Form W-8 or substantially similar substitute form, and the beneficial owner must inform the Withholding Agent of any change in the information on the statement within 30 days of such change. If 1996 Series A QIDS are held through a securities clearing organization or certain other financial institutions, the organization or institution may provide a signed statement to the Withholding Agent. However, in such case, the signed statement must be accompanied by a copy of a Form W-8 or substitute form provided by the beneficial owner to the organization or institution holding the 1996 Series A QIDS on behalf of the beneficial owner. Recently, proposed Treasury regulations were issued which would modify these certification procedures. Generally, if the proposed modifications were adopted, the certification procedures would not be more burdensome on non-U.S. beneficial owners than the current procedures. It can not be predicted whether these proposed modifications will be adopted, either with or without amendments thereto.

Generally, any amount which constitutes capital gain to a non-U.S. beneficial owner upon retirement or disposition of 1996 Series A QIDS will not be subject to federal income taxation in respect of such amount. Certain exceptions may be applicable and individual non-U.S. beneficial owners are therefore urged to consult a tax advisor.

The 1996 Series A QIDS will not be includible in the federal estate of a non-U.S. beneficial owner.

Backup Withholding

Backup withholding of United States federal income tax at a rate of 31 percent may apply to payments made in respect of the 1996 Series A QIDS to beneficial owners who are not exempt recipients and who fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the manner required. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the 1996 Series A QIDS to a U.S. beneficial owner must be reported to the United States Internal Revenue Service, unless such U.S. beneficial owner is an exempt recipient or establishes an exemption. Compliance with the identification procedures (described in the preceding section) would establish an exemption from backup withholding for those non-U.S. beneficial owners who are not exempt recipients.

In addition, upon the sale of 1996 Series A QIDS to (or through) a broker, the broker must withhold at a rate of 31 percent of the reportable payment, unless either (i) the broker determines that the seller is



JB: G33672 PN: 020.00.00.00 SN: 1 <SQ>

a corporation or other exempt recipient or (ii) the seller provides, in the required manner, certain identifying information and, in the case of a non U.S. beneficial owner, certifies that such seller is a non-U.S. beneficial owner (and certain other conditions are met). Such a sale must also be reported by the broker to the United States Internal Revenue Service, unless either (i) the broker determines that the seller is an exempt recipient or (ii) the seller certifies its non-U.S. status (and certain other conditions are met). Certification of the beneficial owner's non-U.S. status usually would be made on Form W-8 under penalties of perjury, although in certain cases it may be possible to submit other documentary evidence. The term broker generally includes all persons who, in the ordinary course of a trade or business, stand ready to effect sales made by others, as well as brokers and dealers registered as such under the laws of the United States or a state. The requirements generally will apply to a United States office of a broker, and the information reporting requirement generally will apply to a foreign corporation within the meaning of Section 957(a) of the Internal Revenue Code or (ii) 50 percent or more of whose gross income from all sources for the 3-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the foreign broker has been in existence) was effectively connected with the conduct of a trade or business within the United States.

Generally, any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's United States federal income tax.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, TVA has agreed to sell to each of the Underwriters named below, and each of such Underwriters, for whom Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Dean Witter Reynolds Inc., A.G. Edwards & Sons, Inc., PaineWebber Incorporated, Prudential Securities Incorporated, and Smith Barney Inc. are acting as representatives (the "Representatives"), has severally agreed to purchase from TVA, the principal amount of the 1996 Series A QIDS set forth opposite its name below:

<u>Underwriter</u>	<u>Principal Amount</u>
Goldman, Sachs & Co.....	\$ 44,500,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	44,500,000
Dean Witter Reynolds Inc.	43,750,000
A.G. Edwards & Sons, Inc.	43,750,000
PaineWebber Incorporated	43,750,000
Prudential Securities Incorporated	43,750,000
Smith Barney Inc.	43,750,000
Bear, Stearns & Co. Inc.	6,250,000
Alex, Brown & Sons Incorporated	6,250,000
CS First Boston Corporation	6,250,000
Dillon, Reed & Co. Inc.	6,250,000
Donaldson, Lufkin & Jenrette Securities Corporation	6,250,000
EVEREN Securities, Inc.	6,250,000
Lehman Brothers Inc.	6,250,000
Morgan Stanley & Co. Incorporated	6,250,000
Oppenheimer & Co., Inc.	6,250,000
Salomon Brothers Inc	6,250,000
Schroder Wertheim & Co. Incorporated	6,250,000
UBS Securities LLC	6,250,000
Advest, Inc.	1,750,000
Arthurs, Lestrangle & Company Incorporated	1,750,000
Robert W. Baird & Co., Incorporated	1,750,000
BA Securities, Inc.	1,750,000
M.R. Beal & Company	1,750,000
William Blair & Company, L.L.C.	1,750,000
Blount Parrish & Roton, Inc.	1,750,000
J.C. Bradford & Co.	1,750,000



JB: G33672 PN: 021.00.00.00 SN: 1 <SQ>

<u>Underwriter</u>	<u>Principal Amount</u>
JW Charles Securities, Inc.	\$ 1,750,000
Commerce Investment Corporation	1,750,000
Commerzbank Capital Markets Corporation	1,750,000
Compass Bank	1,750,000
Cowen & Company	1,750,000
Craigie Incorporated	1,750,000
Credit Lyonnais Securities (USA) Inc.	1,750,000
Crowell, Weedon & Co.	1,750,000
Dain Bosworth Incorporated	1,750,000
Davenport & Co. of Virginia, Inc.	1,750,000
Equitable Securities Corporation	1,750,000
Fahnestock & Co. Inc.	1,750,000
Ferris, Baker Watts, Incorporated	1,750,000
First Albany Corporation	1,750,000
First American National Bank	1,750,000
First of Michigan Corporation	1,750,000
First Tennessee Bank N.A.	1,750,000
First Union Capital Markets Corp.	1,750,000
Furman Selz LLC	1,750,000
Gruntal & Co., Incorporated	1,750,000
J.J.B. Hilliard, W.L. Lyons, Inc.	1,750,000
Interstate/Johnson Lane Corporation	1,750,000
Janney Montgomery Scott Inc.	1,750,000
Josephthal Lyon & Ross Incorporated	1,750,000
Kennedy, Cabot & Co.	1,750,000
LaSalle National Bank	1,750,000
WR Lazard, Laidlaw & Luther, Inc.	1,750,000
Legg Mason Wood Walker, Incorporated	1,750,000
McDonald & Company Securities, Inc.	1,750,000
McGinn, Smith & Co., Inc.	1,750,000
Mesirow Financial, Inc.	1,750,000
Morgan Keegan & Company, Inc.	1,750,000
The Ohio Company	1,750,000
Olde Discount Corporation	1,750,000
Parker/Hunter Incorporated	1,750,000
Piper Jaffray Inc.	1,750,000
Principal Financial Securities, Inc.	1,750,000
Pryor, McClendon, Counts & Co., Inc.	1,750,000
Ragen MacKenzie Incorporated	1,750,000
Rauscher Pierce Refsnes, Inc.	1,750,000
Raymond James & Associates, Inc.	1,750,000
Redwood Securities Group, Inc.	1,750,000
The Robinson-Humphrey Company, Inc.	1,750,000
Roney & Co., LLC	1,750,000
Scott & Stringfellow, Inc.	1,750,000
Muriel Siebert & Co., Inc.	1,750,000
Stephens Inc.	1,750,000
Sterne, Agee & Leach, Inc.	1,750,000
Stifel, Nicolaus & Company, Incorporated	1,750,000
SunTrust Capital Markets, Inc.	1,750,000
Sutro & Co. Incorporated	1,750,000
Trilon International Inc.	1,750,000
Tucker Anthony Incorporated	1,750,000
U.S. Clearing Corp.	1,750,000
Utendahl Capital Partners, L.P.	1,750,000
Vining-Sparks IBG, L.P.	1,750,000

<u>Underwriter</u>	<u>Principal Amount</u>
Wedbush Morgan Securities	\$ 1,750,000
Wheat, First Securities, Inc.	1,750,000
Yamaichi International (America), Inc.	1,750,000
Total	<u>\$500,000,000</u>

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent, and that the Underwriters will be obligated to purchase all of the 1996 Series A QIDS if any are purchased.

TVA has been advised by the several Underwriters that they propose to offer the 1996 Series A QIDS to the public at the initial public offering price set forth on the cover page of this Offering Circular and to certain dealers at such price less a concession not in excess of 2.0% of the principal amount of the 1996 Series A QIDS; that the Underwriters and such dealers may realow a discount not in excess of 1.4% of such principal amount on sales to certain other dealers; and that after the initial public offering, the public offering price and concession and discount to dealers may be changed by the Representatives.

TVA has granted the Underwriters an option exercisable for two business days after the date of this Offering Circular to purchase up to \$75,000,000 aggregate principal amount of additional 1996 Series A QIDS to cover over-allotments, if any, at the initial public offering price (less the Underwriting Discount), as set forth on the cover page of this Offering Circular. If the Underwriters exercise their over-allotment option, the Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the principal amount of 1996 Series A QIDS to be purchased by each of them, as shown in the foregoing table, bears to the \$500,000,000 principal amount of 1996 Series A QIDS offered hereby.

The 1996 Series A QIDS are a new issue of securities with no established trading market. The 1996 Series A QIDS have been approved for listing, subject to notice of issuance, on the New York Stock Exchange under the symbol "TVB". Trading of the 1996 Series A QIDS on the New York Stock Exchange is expected to commence within a thirty-day period after the initial delivery of the 1996 Series A QIDS. TVA has been advised by the Representatives that they intend to make a market in the 1996 Series A QIDS, but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the 1996 Series A QIDS.

TVA has agreed to indemnify the Underwriters against certain civil liabilities.

VALIDITY OF 1996 SERIES A QIDS

The validity of the 1996 Series A QIDS will be passed upon for TVA by Edward S. Christenbury, Esq., General Counsel of TVA, and for the Underwriters by Orrick, Herrington & Sutcliffe, 666 Fifth Avenue, New York, New York 10103.

* * * * *



JB: G33672 PN: 023.00.00.00 SN: 1 <SQ>

Any statements in this Offering Circular involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Offering Circular is not to be construed as a contract or agreement with the purchaser of any of the 1996 Series A QIDS.

TENNESSEE VALLEY AUTHORITY

By: /s/ DAVID N. SMITH

David N. Smith
Chief Financial Officer

Dated April 19, 1996

No dealer, salesperson or any other person has been authorized to give any information or to make any representations not contained in this Offering Circular, the current Information Statement (as defined herein), or any supplement to any of the foregoing and, if given or made, such information or representations must not be relied upon as having been authorized by TVA or the Underwriters. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any of the 1996 Series A QIDS offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. Neither the delivery of this Offering Circular or the current Information Statement nor any sale made hereunder shall, under any circumstances, create an implication that the information herein is correct as of any time subsequent to its date hereof or that there has been no change in the affairs of TVA since such date.

TABLE OF CONTENTS
Offering Circular

	Page
Risk Factors	C-3
Summary of Offering	C-5
Tennessee Valley Authority	C-7
Use of Proceeds.....	C-7
Recent Developments	C-7
Description of 1996 Series A QIDS.....	C-11
Legality of Investment	C-17
Tax Considerations Applicable to 1996 Series A QIDS.....	C-18
Underwriting	C-20
Validity of 1996 Series A QIDS	C-22

Information Statement

The Tennessee Valley Authority	1
Selected Financial Data	2
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	3
The Area Supplied by TVA.....	4
Rates, Customers and Market	5
Competition	6
Power and Energy Requirements	7
Capital Expenditures	7
Power System.....	7
Nuclear Power Program	9
Environmental Matters.....	13
Insurance	15
Management	16
Employees.....	17
Certain Provisions of the Tennessee Valley Authority Act.....	17
The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness	18
Independent Accountants.....	25
Financial Statements	F-1
Report of Independent Accountants.....	F-18
Report of Management	F-19
Comparative Five-Year Data	F-20

\$500,000,000

Tennessee Valley
Authority

1996 Series A QIDS

7½% Quarterly Income Debt Securities
1996 Series A Due March 31, 2046
(Subordinated Deferrable
Interest Debt Securities)

OFFERING CIRCULAR

Goldman, Sachs & Co.
Merrill Lynch & Co.
Dean Witter Reynolds Inc.
A.G. Edwards & Sons, Inc.
PaineWebber Incorporated
Prudential Securities Incorporated
Smith Barney Inc.

Representatives of the Underwriters